Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

SHOUT
SHARE
IT

584B
no. 381

UNITED STATES DEPARTMENT OF AGRICULTURE

BULLETIN No. 381

Contribution from the Office of Markets and Rural Organization
CHARLES J. BRAND, Chief

Washington, D. C. ▼ September 29, 1916

SERVICE
LIBRARY
1916
RECEIVED

BUSINESS PRACTICE AND ACCOUNTS FOR COOPERATIVE STORES

By

J. A. BEXELL, Dean, School of Commerce, Oregon Agricultural College, Collaborator, Office of Markets and Rural Organization, and W. H. KERR, Investigator in Market Business Practice, Office of Markets and Rural Organization

CONTENTS

	Page
Introduction	1
Corporate Records	3
Minutes	3
Subscription Agreement	5
Certificate Book	7
Stock Certificate Register	7
Dividend Register	7
Membership Ledger	7
Interest and Dividend Account	10
Statements and Reports	14
Manager's Report	15
Inventory	15
Statements and Reports—Continued.	
Auditor's Report	16
President's Report	16
Operating Records	26
Strictly Cash Business	26
Both Cash and Credit Business	41
Auditing	50
Audit of Resources and Liabilities	52
Office Equipment	53
Summary	55
Bibliography	56
Index of Records and Accounting Forms	56

WASHINGTON
GOVERNMENT PRINTING OFFICE
1916

AN EFFICIENT OFFICE CONTRIBUTES MATERIALLY TO THE SUCCESS OF THIS STORE.

UNITED STATES DEPARTMENT OF AGRICULTURE

BULLETIN No. 381

Contribution from Office of Markets and Rural Organization
CHARLES J. BRAND, Chief

Washington, D. C. ▼ September 29, 1916

BUSINESS PRACTICE AND ACCOUNTS FOR COOPERATIVE STORES.

By J. A. BEXELL, *Dean, School of Commerce, Oregon Agricultural College, Collaborator, Office of Markets and Rural Organization;* and W. H. KERR, *Investigator in Market Business Practice, Office of Markets and Rural Organization, U. S. Department of Agriculture.*

CONTENTS.

	Page.
Introduction	1
Corporate records	3
Minutes	3
Subscription agreement	5
Certificate book	7
Stock certificate register	7
Dividend register	7
Membership ledger	7
Interest and dividend account	10
Statements and reports	14
Manager's report	15
Inventory	15
Auditor's report	16
President's report	16
Operating records	26
Strictly cash business	26
Cash receipts	26
Use of the cash register	26
Cash register ticket	26
Bank deposits	27
Cashbook	27
Explanation of column captions.	27
Cash payments	28
Orders and remittances	29
Cash payment book	29
Explanation of column captions.	29
Operating records—Continued.	
Strictly cash business—Continued.	
Cash payment book—Continued.	
Balancing the cash book	30
Reconciling the bank account	31
Cash summary	31
Coupon and scrip system	31
Journal	33
General ledger	36
Explanation of general accounts.	36
Trial balance	40
Closing the ledger	40
Both cash and credit business	41
Accounts receivable	47
Bills receivable	47
Goods returned	47
Produce	48
Accounts payable	48
Account file system	49
Departmental cost accounts	50
Auditing	50
Audit of resources and liabilities	51
Office equipment	53
Summary	55
Bibliography	56
Index of records and accounting forms	56

INTRODUCTION.

The purpose of this bulletin is to outline a simple and adequate system of records for cooperative retail stores, and to point out such fundamental business methods as must be observed to insure success. It is not a treatise on the principles of bookkeeping, but merely an outline of a special system adapted to a cooperative business. It

NOTE.—This bulletin should be of interest to all cooperative stores and members of such stores. It should be of interest to retail grocery and general merchandise stores throughout the country.

is assumed that no corporation will engage in business without employing a competent bookkeeper.

In a large percentage of business failures the cause can be traced directly to defective methods of analyzing the business through the absence of carefully kept records.[1] No business can hope to succeed unless its condition is kept constantly before the management in the form of comparative statistics upon which future operations may be based.

It is important that the system of accounts be adapted to the business in hand. It should be as simple as circumstances permit, but it must be adequate for the analysis of every phase of the business; the results must be capable of proof by means of double entries, and the facts must be available at all times to the management.

The form of accounting records depends largely upon the information desired and the character of the business they serve. It is poor economy to sacrifice completeness and real usefulness for simplicity. Under no circumstances should a system of accounts be adopted until it is certain to meet every demand for information that may be made on it.

It is impossible to exaggerate the importance of selecting a proper system of accounts. By "system" is meant, not a disconnected mass of notes and memoranda, but a scientific *analysis* of the business. Nor should the value of standardization of accounts be overlooked. One of the greatest arguments in favor of adopting a uniform system of accounts is to enable managers to draw comparisons between theirs and other stores and groups of stores.

The only essential difference between accounting for cooperative and other retail stores lies in the fact that the former are semipublic institutions, while the latter are private enterprises. In the cooperative store the working capital is contributed by a large number of persons, who are entitled to regular reports. The business is managed by a board of directors, which requires constant information concerning the conduct of the business. The law creating the association prescribes certain methods of publicity. Moreover, the accounting for cooperative associations is complicated by the fact that the net earnings are usually distributed to patrons, frequently to both members and nonmembers, in proportion to their purchases from the store.

In every corporation organized for profit there are two distinct classes of records: First, those pertaining to its corporate existence, including its articles of association, by-laws, and the minutes, the capital contributions of its members, the distribution of dividends, and the like; and, second, the records of operation, or trade, and the relation of the business to the public.

[1] Kerr, W. H., and Nahstoll, G. A. Cooperative organization business methods. U. S. Dept. of Agr. Bul. 178. 1915.

CORPORATE RECORDS.

MINUTES.

The minutes should constitute a faithful record of all important documents, such as the articles of association and by-laws, as well as a complete record of every meeting of the association. They should be kept in perfect chronological order, every record properly dated and indexed. Nothing should be entered on the minutes until it is properly acted upon by the association, and, as evidence of such action, in every case the minutes should be countersigned by the president. Form 1 will be found convenient.

Form 1.—MINUTES.

June 1, 1915.

Minutes of a preliminary meeting of citizens of —— interested in the organization of a cooperative store.	Preliminary meeting.
The following members of Union No. — met in ——— at ——, June 1, 1915, at 3 o'clock.	Place. Time.
There were present A, B, C, D, etc.	Attendance.
Mr. John Doe was elected chairman and Mr. James Smith secretary.	Officers.
After considerable informal discussion, the following resolutions were unanimously adopted:	Resolutions.
(1) That it is the sense of the meeting that a cooperative association should be organized for the purpose of conducting a retail store of general merchandise.	Cooperative store to be started.
(2) That a committee of three be appointed to make a preliminary canvass for membership, and to report at the next meeting.	Membership committee.
(3) That a committee of three be appointed to take the necessary preliminary steps toward organization, and to report at the next meeting.	Committee on constitution and by-laws.
(4) That the committee on organization be authorized to employ legal counsel in drafting the articles of association and by-laws and in perfecting the organization.	Legal counsel for organizing.
The meeting adjourned at 5 o'clock, to meet at the same place at 3 o'clock, June 8, 1915.	
Approved: *John Doe*, *Chairman.* Attest: *James Smith*, *Secretary.*	

June 8, 1915.

Pursuant to adjournment at the preliminary meeting held June 1, a meeting of persons interested in the establishment of a cooperative store, was held in ———, ——, at 3 o'clock.	
The meeting was called to order by Mr. Doe. Mr. Smith acted as secretary.	Officers.
The minutes of the meeting of June 1 were read and approved.	
The committee on membership reported that 60 persons had subscribed to a total of 75 shares or $1,875. The report was adopted and ordered placed on file. [Here follows a copy of the report, including the subscription list.]	Report of membership committee.
The committee on organization submitted its report, and after due deliberation the following Articles of Association were adopted and ordered filed with the proper authorities. [Here follows a copy of the document as adopted.]	Report of committee on organization. Constitution.
The organization committee was directed to act with the legal counsel in securing the incorporation certificate.	Organization committee to cooperate with counsel.
The meeting adjourned to meet at the same place at 3 o'clock June 22, 1915.	Adjournment.
Approved: *John Doe, Chairman.* Attest: *James Smith, Secretary.*	

The minutes of the board meetings should have the same general form, and should be a faithful record of every important act of that body.

The reader should observe the marginal notations. They are the important points to be indexed. A good alphabetical index should accompany the minutes, which should note such items as are likely to be referred to frequently.

Form 2.—SUBSCRIPTION AGREEMENT.

We, the undersigned, do hereby subscribe, each respectively, for the number of shares of the Capital Stock of the Farmers' Cooperative Association set opposite our respective names, and do agree to pay for such shares the par value thereof, to wit: Twenty-five Dollars ($25) for each share of stock so subscribed, at such time and in such manner as may hereinafter be directed by the Board of Directors of the said Farmers' Cooperative Association.

And we do hereby fix the 8th day of June, A. D. 1915, at the hour of 3 o'clock in the afternoon of said day, as the time, and the office of ..... as the place for holding the meeting of subscribers to the Capital Stock of the company, and do hereby waive statutory or other notice of time, place, and purpose of said meeting, and do hereby consent to any and all business which may be transacted thereat.

No.	Name.	Address.	Shares.	Amount.
1	*John Doe*	*762 Jefferson*	2	$50.00
2				
145	*Richard Roe*	*2531 Monroe*	1	25.00
	Total			6,000.00

Form 3.—STOCK NOTE.[1]

No. *376.* FARMERS' COOPERATIVE ASSOCIATION.

$25.00 [Place] *June 10, 1915.*

Payments.		
Date.		Amount.
Oct.	*1*	*10 00*
Jan.	*5*	*10 00*
May	*1*	*5 00*
Total		*25 00*

In consideration of the Certificate of Membership in the Farmers' Cooperative Association, the receipt of which is hereby acknowedged, I agree to pay the said association within *one year after date* at their office in ....., or to its order, the sum of *Twenty-five no/100* ..... Dollars, with interest thereon at the rate of six per cent per annum from date of issue until paid.

Due *June 10, 1916.* *B. S. Brown*

Address: R. F. D. No. 4.

It is understood and agreed that Stock Certificate No. .... covering ..... shares is held by the Association as collateral for this note, pending payment in full.

[1] In this system of accounts provision is made for recording stock notes because a large number of associations have accepted such notes as temporary settlement for stock. The practice is not recommended, however, since there seems to be no good reason why cash payment should not be required. Where notes are accepted the corresponding stock certificate must be held as collateral, as shown in Form 3.

Form 4.—STOCK CERTIFICATE.

No. *458* Incorporated Under the Laws of the

Shares *2* State of ——

FARMERS' COOPERATIVE ASSOCIATION.

[Place]

This Certifies that *F. R. Jones* is the owner of *Two* Shares of Capital of the par value of Twenty-five Dollars ($25.00) each, of the

FARMERS' COOPERATIVE ASSOCIATION,

transferable only on the books of the Association by the holder in person, or by attorney, upon the surrender of this Certificate properly endorsed.

In witness whereof, the said Association has caused this Certificate to be signed and sealed by its duly authorized officers this *2* day of *January*, A. D. *1916*.

[SEAL.] *James Smith*, *Secretary.* *John Doe*, *President.*

Form 5.—STOCK CERTIFICATE REGISTER.

Cert. No.	Date issued.		Name.	Address.	LF.	Shares.	Amount.	
458	*June 1915*	*20*	*F. R. Jones*	*R. F. D. 4*		*2*	*50*	
459		*20*	*F. L. Green*	*830 Monroe Street*		*2*	*50*	
			Total for year			*238*	*6,000*	

Left side.

FARMERS' COOPERATIVE ASSOCIATION.

Original Date.		Transferred from—	Original certificate No.	Original number of shares.	Number of shares transferred.	Remarks.
July	*3*	*P. D. Smith*	*327*	*2*	*2*	
						Cash

Right side.

It will be assumed that the organization is now completed; that the capital is fixed at $10,000; that 60 per cent of the capital is issued, 25 per cent paid in, and the balance, $3,500, is covered by bankable stock notes. The total of the subscription agreement (Form 2) is then $6,000, and the total of the stock certificate register (Form 5) $6,000. The manager's first entry in the Journal is shown in Form 19 and the notes are listed in the Stock Notes Register (Form 24).

According to the subscription agreement there were 145 signatures; 90 had subscribed for 1 share each, 25 for 2, 20 for 3, and 10 for 4 shares each. Thirty-five hundred dollars of the subscriptions are yet unpaid, but are in the form of bankable notes (Form 3), and they are entered in the Stock Notes Register (Form 24).

CERTIFICATE BOOK.

The Certificate Book is merely a number of stock certificates and their stubs bound together. The secretary issues the certificates, fills in the stubs, and secures the member's receipt when the certificate is delivered (Form 4). Of course the certificate is signed and sealed as required by law. If for any reason a certificate is canceled, or, if transferred, the secretary requires the return of the certificate, cancels it, and pastes it to its stub.

STOCK CERTIFICATE REGISTER.

The Stock Certificate Register is merely a numerical list of the certificates issued, where all the essential facts noted on the certificate are recorded in logical order. Care should be taken to see that all the certificates are accounted for. The right-hand page is devoted to a record of the facts regarding transfer. Form 5 will be found convenient.

DIVIDEND REGISTER.

After the amount and contents of each envelope (Form 11) have been checked, the total is entered in the proper space in the Trading Summary and Dividend Register (Form 12), and the total from this summary is posted to the Membership Ledger account (Form 6).

The Dividend Register can be arranged in book form, as shown, or in the form of a card file. The book has the advantage of showing a large number of facts on a page, while the cards are more convenient for reference.

MEMBERSHIP LEDGER.

It will be noticed that the Membership Ledger (Form 6) is really two books in one. Each account contains a record of the paid-up stock and transfers, and, finally, the interest and dividend account, the latter being of value chiefly for statistical purposes and in the adjustment of dividends. The amount of the customer's purchase is taken from the "total" column of the Trading Summary and

Form 6.—MEMBERSHIP LEDGER.

Name..... Address..... No.....

STOCK CERTIFICATE ACCOUNT.

Date, 1915.		Transferred to—	Certificate.		Amount.		Date, 1915.		Remarks.	C. B. folio.	Certificate.		Amount.	
			No.	Shares.							No.	Shares.		
Mar.	*1*	*F. R. Jones*.....	*75*	*1*	*25*		*Jan.*	*2*	.....	.....	*58*	*2*	*50*	....
.....	...	.....	.....	.....	.....	...	.....	...	.....	.....	.....	.....	.....	...
.....	...	.....	.....	.....	.....	...	.....	...	.....	.....	.....	.....	.....	...
.....	...	.....	.....	.....	.....	...	.....	...	.....	.....	.....	.....	.....	...
.....	...	.....	.....	.....	.....	...	.....	...	.....	.....	.....	.....	.....	...

Upper half of sheet.

INTEREST AND DIVIDEND ACCOUNT.

Year.	Purchases.	Check No.	Interest.		Dividend.		Year.	Purchases.	Check No.	Interest.		Dividend.	
			Rate.	Amount.	Rate.	Amount.				Rate.	Amount.	Rate.	Amount.
1915	*350*		*6*	*3*	*5*	*17 50*	*1920*						
1916							*1921*						
1917							*1922*						
1918							*1923*						
1919							*1924*						

Remarks

Lower half of sheet.

Dividend Register (Form 12). The Membership Ledger is a classification of the information found in the Certificate Register under the several membership accounts. The ordinary form of Stock Ledger on the market is not convenient because of the trade-dividend feature noted above; hence the special form shown in Form 6 is recommended.

INTEREST AND DIVIDEND ACCOUNT.

Most cooperative stores pay interest on their share capital, and their aim is to pay dividends on the purchases. After the total interest or dividends has been ascertained and declared by the board of directors a check for the amount is drawn and recorded in the Cash Book. This check should be deposited to the credit of a special Dividend Account. Dividend checks are drawn for the amounts due members and listed in the Trading Summary and Dividend Register.

Form 7.—MANAGER'S REPORT.

December 31, 1915.

PART I.—BALANCE SHEET.

RESOURCES:			Exhibit.			
	1[1]	Cash on Hand	A		150 00	
	2	Cash in Bank	A		2,240 00	2,390 00
	3	Accounts Receivable	B		7,500 00	
	4	Less Reserve for Bad Debts			350 00	7,150 00
	5	Bills Receivable	C		2,300 00	
	6	Stock Notes Receivable	D		3,240 00	5,540 00
	7	Accrued Interest	C			31 00
	8	Merchandise Inventory	E			14,900 00
	9	Office Supplies	F			20 00
	10	Furniture & Fixtures	G		1,560 00	
	11	Less Reserve for Depreciation			285 00	1,275 00
	12	TOTAL RESOURCES				31,306 00
LIABILITIES:						
	13	Accounts Payable	H			1,600 00
	14	Bills Payable	I			1,900 00
	15	Accrued Interest	I			21 00
	16	Coupons Outstanding				150 00
	17	Capital Stock				15,350 00
	18	Surplus Jan. 1, 1915			9,055 00	
	19	Net Profit for Year			6,032 00	
	20	Less Interest on Stock	657.00		15,087 00	
	21	Less Dividends Paid	2,145.00		2,802 00	
	22	Surplus December 31, 1915				12,285 00
	23	TOTAL LIABILITIES				31,306 00

[1] For explanation of the item, see the corresponding numbers beginning on p. 36.

Form 7.—MANAGER'S REPORT—Continued.

PART II.[1]—INCOME SHEET.

A.—Trading Statement.

SALES:						
	24	Gross Sales			76,130 00	
	25	Less Returns & Allowances on Sales			200 00	
	26	Net Sales				75,930 00
COST OF MERCHANDISE SOLD:						
	27	Inventory Jan. 1, 1915		10,300. 00		
	28	Merchandise Purchases (Exclusive of Discount)	60,100. 00			
	29	Produce	7,200. 00	67,300. 00		
	30	Accounts Payable Dec. 31, 1915		1,600. 00		
	31	Freight, Express & Cartage		600. 00		
	32	Gross Merchandise Cost			79,810 00	
		Deduct:				
	33	Inventory Dec. 31, 1915		14,900. 00		
	34	Accounts Payable Jan. 1, 1915		2,100. 00	17,000 00	
	35	Net Cost of Merchandise Sold (turnover)				62,800 00
	36	Gross Trading Profit				13,130 00
		Notes:				
		Average Inventory (26) and (31)			12,600 00	
		Stock Turns (33) divided by average inventory 5.0 times				
		Cost equals 82.7% of Sales				
		Gross Trading Profit equals 17.3% of Sales.				

[1] The two statements included in this part are shown in detail for the purpose of indicating the method of obtaining the de ired information. It is often more satisfactory to present the income sheet to the membership in a more condensed form.

PART II.—INCOME SHEET—Continued.

Form 7.—MANAGER'S REPORT—Continued.

B.—Profit and Loss Statement.

PROFITS:					
37	Gross Trading Profit			13,134 00	
38	Merchandise Discount			790 00	
39	Interest Received			157 00	
40	Unclassified Income			177 00	14,282 00
LOSSES:					
Buying and Selling Expense:					
41	Salaries & Wages	4,110.00			
42	Advertising & Wages	150.00			
43	Delivery	135.00			
44	Miscellaneous	60.00		4,455 00	
Management Expense:					
45	Management & Office Salaries	1,440.00			
46	Office Expense	147.00			
47	Premiums on Surety Bonds	50.00		1,637 00	
Fixed Charges and Upkeep:					
48	Rent, Insurance & Taxes	1,290.00			
49	Light, Heat, Water & Power	173.00			
50	Depreciation on Furniture & Fixtures	155.00			
51	Repairs	160.00			
52	Telephone	50.00		1,828 00	
Miscellaneous Expense:					
53	Interest on Notes	90.00			
54	Bad Debts	200.00		290 00	
55	Total Operating Expense			8,210 00	
56	Unclassified Losses			40 00	
57	Total Losses				8,250 00
58	Net Profit for the year, carried to Surplus				6,032 00
	Notes:				
	Buying & Selling Expense	5.9% of Sales			
	Management Expense	2.2% of Sales			
	Fixed Charges & Upkeep	2.4% of Sales			
	Miscellaneous Expense	.4% of Sales			
	Total Expenses	10.9% of Sales			

Form 7.—MANAGER'S REPORT—Continued.

PART III—EXHIBITS.

Exhibit A.—Cash Statement.

CASH RECEIPTS:			
Cash on Hand January 1, 1915		100 00	
Cash in Bank January 1, 1915		2,480 00	2,580 00
Coupons Issued			12,390 00
Merchandise Sales			34,900 00
Accounts Receivable			35,475 00
Bills Receivable			4,560 00
Bills Payable			13,000 00
Interest Received			180 00
Capital Stock			2,050 00
Stock Notes Receivable			3,400 00
Unclassified—Furniture & Fixtures (Safe)		125 00	
Commission on Machinery Sales		178 00	303 00
			108,838 00
Returns & Allowances		30 00	
Coupons Redeemed		19,600 00	19,630 00
Total Cash Receipts			89,208 00
CASH PAYMENTS:			
Merchandise Purchases			60,100 00
Produce Purchases			7,200 00
Returns & Allowances			90 00
Freight, Express, & Cartage			600 00
Salary & Labor			5,550 00
Advertising & Delivery			285 00
Miscellaneous Buying & Selling Expense			60 00
Office Expense			150 00
Rent, Insurance, & Taxes			1,290 00
Light, Heat, Water, & Power			173 00
Interest on Stock		657 00	
Interest on Notes Payable		98 00	755 00
Telephone & Telegraph			50 00
Bills Payable			15,800 00
Furniture & Fixtures			350 00
Unclassified—Dividends Members	1,760.00		
Dividends Nonmembers	385.00	2,145 00	
Manager's Bond		50 00	
Repairs		160 00	2,355 00
			94,808 00
Merchandise Discounts		790 00	
Coupons Issued		7,200 00	7,990 00
			86,818 00
Cash on Hand December 31, 1915		100 00	
Cash in Bank December 31, 1915		2,290 00	2,390 00
			89,208 00

Form 7.—MANAGER'S REPORT—Continued.

PART III.—EXHIBITS—Continued.

	B Accounts Receivable				
	C Bills Receivable and Accrued Interest				
	D Stock Notes Receivable and Accrued Interest				
	E Merchandise Inventory				
	F Office Supplies Inventory				
	G Furniture & Fixtures Inventory				
	H Accounts Payable				
	I Bills Payable and Accrued Interest				
	J Capital Stock				

Form 8.—COMPARATIVE STATEMENT.

Year.	Sales.	Per cent expense.	Per cent salary and labor.	Per cent net profit.	Per cent gross profit.	Average inventory.	Stock turns.	Surplus.	Per cent dividend.
1910	67,074	12.2	7.8	4.0	16.2	16,060	3.5	2,010	2
1911	70,300	12.1	7.5	4.9	17.0	15,350	3.8	4,800	2
1912	79,500	11.4	7.2	6.5	17.9	15,940	4.1	8,300	3
1913	101,600	11.3	6.9	8.1	19.4	18,630	4.4	13,400	5
1914	96,300	12.3	8.0	8.0	20.3	17,870	4.3	18,200	5
1915	111,200	11.9	7.4	10.1	22.0	17,190	5.1	24,900	6

Form 9.—INVENTORY.

Sheet No. *15.*	Date *Dec. 31, 1914.*	Folio *29.*
Called by *W. J.*	Department *Groceries.*	Priced by *L. D.*
Entered by *J. A.*		Extended by *W. J.*
		Examined by *B. W.*

Quantity.	Item.	Price.	Extension.			
50 sks	*Phillips Best*	*1.20*			*60*	

STATEMENTS AND REPORTS.

The by-laws of cooperative associations usually specify a number of reports to be submitted at stated intervals by the officers to the board or to the association. Nothing will establish a greater degree of confidence than full, accurate, and regular publicity. The records outlined in the following pages satisfy all these requirements, if properly kept up. They enable the manager to furnish information at a moment's notice on every phase of the business; they contain double-entry checks sufficient to insure protection against errors and negligence; and, if the instructions are faithfully carried out, there is no reason why any reasonable demand on the bookkeeper for infor-

mation should not be met promptly. The reports usually required are: (1) The Manager's Financial Report; (2) the Auditor's Report, and (3) the President's Report.

MANAGER'S REPORT.

The Manager's Report is the foundation of the operating record. It should constitute a complete summary of the financial operations of the past year, month, or other period, as the case may require. Once its form is determined and what information it is to contain, the records must be shaped so as to yield the information with the least labor and liability of error. It should be based entirely on the permanent and balanced records, and on the actual inventory, or on the estimated inventory based on known percentages as explained below under "Inventory."

This implies that the manager must not undertake to prepare his report until the books are completely balanced. It behooves the board, therefore, to allow a sufficient time between the close of the fiscal period and the meeting of the board or members to enable the bookkeeper, the manager, and the auditor to fulfill these conditions. Two weeks will not be found excessive.

The form of the report is very important, since upon this to a large extent depends its value to the directors and stockholders. Form 7 will be found satisfactory. It consists of three parts, viz:

Part I. The Balance Sheet, showing the Resources and Liabilities.
Part II. The Income Sheet, showing:
(*a*) The Trading Statement, and
(*b*) the General Losses and Gains.
Part III. The Supporting Exhibits, showing the details of the items in I and II.

INVENTORY.

At this point it seems fitting to add a word of caution regarding the inventory. Once or, if time permits, twice a year stock should be taken and the actual market value of the merchandise and the replacement value of the fixtures ascertained. The utmost care should be exercised in taking the inventory, since a difference of several hundred dollars may be found in the Income Sheet by carelessness in measures, prices, and extensions. There are several excellent stock forms of inventory blanks on the market. A conservative allowance for depreciation of goods, due to age or changes in style, price, etc., should be made, so that the inventory stands for the actual market value of the stock. Form 9 will be found satisfactory.

If an audit is made monthly or at any other time between the actual inventories, an approximate value of the goods may be found by the following formula: The last actual inventory (27),[1] plus the merchandise cost (32), minus the net cost of the sales (35). The latter is found

[1] Numbers refer to same items in Manager's Report, page 10.

by subtracting the percentage of gain, based on the last accurate rate of profit (58), from the net sales. Thus, if the net sales were $20,000 for the three months after the last statement, and the net purchases $15,000, the approximate inventory, based on the last gross trading profit (17.3 per cent), would be $14,900 plus $15,000, or $29,900—less 82.7 per cent of $20,000, or $16,540—and the inventory would be $13,360.

AUDITOR'S REPORT.

The importance of the Auditor's Report is often overlooked. It should be directed to the stockholders and contain (1) a certificate of the condition of the books and office methods, whether or not they agree with the report, and (2) recommendations for improvement in any phase of the business. It should be read by the auditor himself, or by the secretary, immediately after the Manager's Report, and should be adopted and spread on the minutes. If the Manager's Report is printed for distribution among the members, the Auditor's Report should be published also. It is quite impracticable to give even a general form of an Auditor's Report, since this will vary greatly according to circumstances. Frequently the auditor analyzes the Manager's Report by means of comparative summaries and graphs (Form 8).

The percentages shown in the merchandise and expense statements may be truly called the barometers of the business. They should be the object of constant study by the management. Not only should the current figures be studied, but they should be compared month by month and year by year. This is accomplished by the Comparative Statement (Form 8). A graphic representation of the various sets of figures may be very profitable. Regarding the duties of the auditor and methods, see page 50.

PRESIDENT'S REPORT.

It is an excellent practice to require an annual written report from the president as a part of the permanent record of the association. This requirement will often stimulate greater activity in the board at a corresponding profit to the association. The report should contain (1) a review of the activities of the board and actions at previous meetings; (2) a recapitulation of the financial operations of the year; (3) a tentative budget for next year's operations; (4) recommendations respecting the policy of the association; and (5) any other matter which, in the opinion of the president, should come before the annual meeting. The summary of last year's business and the budget, of course, should be based on the manager's and auditor's reports. Hence, the *audited* report should be in the hands of the president before his report is prepared. The president or the secretary should read the report to the stockholders, by whom it should be approved and ordered filed or spread on the minutes. The stockholders then proceed to act on the suggestions.

Form 10.—CASH REGISTER TICKET.

Sale No. *5632* Date, *Jan. 2, '15* Amount, *1.00* Subject to Dividend. Name, *James Green.* No. *58*	Farmers' Cooperative Association Trade with Yourself. Return this ticket before the tenth day of next month as a claim for dividends.
Front.	Back.

Form 11.—ENVELOPE SHOWING MONTHLY RETURN OF CASH TICKETS.

Name, *James Green* No. *58*

Month, *January*, 1915.

Secure a cash register ticket for each purchase, *including purchases* in *exchange* for *produce* on *coupons*. List the tickets in the columns below. Extend the total and return the envelope containing the ticket not later than the tenth of each month. List each month on a separate envelope.

Total	1	1	1				1	8					2			3	5	2	1
	10	15	80	20	60	90			15	85	70	10	30		25	50			
90													1			1			
—													45		15	20		75	85

Form 12.—TRADING SUMMARY AND DIVIDEND REGISTER.

No.	Name.	Jan.	Feb.	Mar.	Apr.		Total.	Dividend 5 per cent.
58	*J. Green*	*30.00*	*25.00*	*27.00*	*34.00*		*350.00*	*17.50*
75	*F. Jones*			*32.00*	*40.00*		*586.00*	*19.30*
76	*J. Smith*	*15.00*	*18.00*	*24.00*	*14.00*		*240.00*	*12.00*
	Total						*5,000.00*	*2,500.00*

Form 13.—DAILY SUMMARY OF RECEIPTS.

No. *376* DATE *January 2, 1915*

ACCOUNTS.	REMARKS.		AMOUNT.
Debit:			
(1) 1 Total Cash Received	As per register		435 30
2 Returns & Allowances			
3 Coupons Redeemed			38 00
TOTAL			473 30
Credits:			
4 Coupons Sold			43 00
5 Merchandise Sales			179 00
6 Accounts Receivable	John Jones 6.70; Sam Hill 6.80		
	R. S. White 8.30		21 80
7 Bills Receivable	R. K. Wright		100 00
8 Bills Payable			
9 Interest Received			2 00
10 Capital Stock			
11 Stock Notes			
12 to 17 [Insert titles if the	columns are needed]		
18 Unclassified	Safe sold	125.00	
	Stamps sold	.50	125 50
TOTAL			473 30
Register Reading $435.82	Approved:		
Cash Short $ .52			
Cash Long $			
Number of Customers 236			
Coupons Issued for	J. B. Doe		
Produce $	Manager		

Prepared in duplicate.

[1] These numbers correspond to those of the cash-receipt column.

Form 14.—CASH RECEIPTS,

				1	2	3	4	5	6	7	8	9
Date, 1915.		Item.	Rec. No.	Net cash.	Returns and allowances.	Coupons redeemed.	Coupons issued.	Merchandise sales.	Accounts receivable.	Bills receivable.	Bills payable.	Interest.
Jan.	*1*	*Cash on hand*		*100*								
		Cash in Bank		*2,480*								
	1	*As per Summary*	*376*	*435 30*		*38*	*45*	*179*	*21 80*	*100*		*2*
	2		*377*	*829 50*	*1 50*	*60*	*40*	*190*	*26*		*500*	
		Total for Month		*9,589 90*	*2 10*	*1,580*	*1,050*	*2,900*	*2,800*	*350*	*900*	*12*

Left side.

FARMERS' COOPERATIVE ASSOCIATION.

10	11	12	13	14	15	16	17	18		
Capital stock.	Stock notes.							Unclassified.		
								Amount.	L. F.	Account credited.
								100		
								2,480		
								125 50	*10*	*Furn. & Fix*
50	*75*									
175	*275*							*2,710*		

Right side.

NOTE.—By omitting columns 13 to 18 and making the heading of column 12 read "Unclassified," this form may be reduced to one sheet or page.

Form 15.—VOUCHER CHECK.

STATEMENT.

To *M. Field & Co.* DR.

Date.		Invoice.	No.	Amount.	
Dec.	*25*		*3682*	*35*	—
			Total		

DEDUCTIONS.

		Disc. 2%		*70*	
			Net	*$ 34*	*30*

Do not cut apart.

No. *478* *$34.30*

FARMERS' COOPERATIVE ASSOCIATION.

GENERAL MERCHANDISE.

[Place] *Jan. 2, 1915*

Pay to the order of *M. Field & Co*.....

Thirty-four and 30/100.....Dollars

FIRST NATIONAL BANK
[Place]

FARMERS' COOPERATIVE ASSOCIATION,
By *J. B. Doe*,
Mngr.

Form 16.—REMITTANCE BLANK.

FARMERS' COOPERATIVE ASSOCIATION

[Place] *Aug. 14, 1915.*

M. Field & Co.,
Omaha.

GENTLEMEN:

Enclosed please find our check No. *642* in payment of invoices as follows:

Date of Inv.	No.	Deductions.		Face.	Net.
Aug. 5	*M638*	*Short*	*40*		
		Disc. 2%	*1—*	*50 40*	*49*
8	*6392*	*Disc. 1%*	*75*	*75*	*74 25*
			Net remittance		*123 25*

Yours truly,

FARMERS' COOP. ASSN.,
By *J. B. Doe,*
Mngr.

Prepare in duplicate if voucher check is not used.

Form 17.—CASH PAYMENTS,

Date, 1915.		Name.	Check No.	1 Net cash.	2 Merchandise discount.	3 Coupons issued.	4 Merchandise purchased.	5 Produce purchased.	6 Returns and allowances.	7 Freight and express.	8 Salaries and labor.	9 Advertising and delivery.
Jan.	2	*Marshall F. & Co.*	478	34 30	70		35					
.....	.....	*A. Rich*	9	70								
.....	4	*Produce bought*	.....	.....	.....	24	.....	24	.....	.....	.....	.....
.....	.....	*City Book Store*	80	7	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	*First National Bank*	1	10	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	*Total for month*	.....	7,252 50	65	630	4,900	630	470	8	360	22 ....

Left side.

NOTE.—Form 17 is designed for a strictly cash business, where all the bills are discounted. If a credit business is done with dealers a column must be devoted to Accounts Payable. See pages 29 and 48.

FARMERS' COOPERATIVE ASSOCIATION.

10	11	12	13	14	15	16	17	18		
Buying and selling expense.	Office expense.	Rent, insurance, and taxes.	Light, heat, water, and power.	Interest.	Telegraph and telephone.	Bills payable.	Furniture and fixtures.	Unclassified.		
								Amount.	L. F.	Accounts debited.
		70								
5	2									
				10						
6	11	70	13	18	3 50	100	15	321		

Right side.

Form 18.—CASH SUMMARY—RECEIPTS, 1915,

Date.	Item.	Rec. No.	1 Net cash.	2 Returns and allowances.	3 Coupons redeemed	4 Coupons issued.	5 Merchandise sales.	6 Accounts receivable.	7 Bills receivable.	8 Bills payable.	9 Interest.
	January		9,589 90	2 10	1,580	1,050	2,900	2,800	350	900	12
	February										
	March										
	December										
	Total for year		89,208	30	19,600	12,390	34,900	35,475	4,560	13,000	180

Left side.

FARMERS' COOPERATIVE ASSOCIATION.

10	11	12	13	14	15	16	17	18		
Capital stock.	Stock notes receivable.							Unclassified.		
								Amount.	L. F.	Accounts credited.
175	*275*							*2,710*		*Segregation:*
										Bal. Ford. *2,580.00*
										Furn. & Fix. *125.00*
										Commission *178.00*
										Total *2,883.00*
2,050	*3,400*							*2,883*		

Right side.

Totals journalized; page 33.
NOTE: Payments summary is similar to Form 17.
See note, page 19.

OPERATING RECORDS.

A.—STRICTLY CASH BUSINESS.

The operating records of a store doing an exclusive cash business are extremely simple, consisting of but three books—the cashbook, the journal, and the ledger. In fact, the cashbook alone is in current use, since only the totals from the cashbook are journalized and posted into the ledger at regular intervals—monthly, quarterly, semiannually, or only annually, as may be desirable in different stores.

Cash Receipts.

In a cash business the original entry of receipts is made in the cash register, or on counterfoil sales books passed to a cashier, if an overhead carrier system is used. The cash register is usually provided with a convenient form for analyzing and proving the daily cash receipts, but this should be used only as a memorandum of original entry, and should not displace any of the records suggested. The Daily Summary of Receipts (Form 13), page 18, may be used if the stock form is not adopted. It should have the same general titles as the cash receipts book, and should constitute the original for the daily entry in the cash receipts book.

Use of the Cash Register.

In a moderate-sized business it is recommended that a good type of register with departmental keys adapted to the nature of the business and a grand total for the use of the auditor be used. The register should furnish a ticket for every sale. On one side should be printed the card of the store and some attractive advertisement or statement; on the other side, the sales number, date, and amount (Form 10).

Cash Register Ticket.

Dividends are based exclusively on the cash register tickets, but care must be exercised that the customers understand definitely the method of handling them. Either they must be given definite instructions that they are to return the tickets, properly listed on an envelope at the end of each month or other regular period, and that no dividends are allowed unless the tickets are returned within the time specified; or the store must provide some regular method of taking care of the tickets. The latter plan is often more satisfactory, because many customers object to being required to take care of the tickets. If the store keeps the tickets, great care must be exercised that the name appears on every ticket, and that the customer drops them in a suitable receptacle; for instance, one resembling a ballot box. At stated intervals the tickets are taken out of

the box and are sorted under the different customers' names. This latter method is more satisfactory from the customer's point of view, but it throws great responsibility on the store and often leads to disagreements as to the credit to which the customer is entitled. Whether one form or the other is used, the tickets should be listed on the face of an envelope, as shown in Form 11, and properly filed until the dividend is declared.

Bank Deposits.

A fixed amount—say $100—should be set aside for change and for petty expenses, after which all receipts should be deposited. It will be found a good practice and of great convenience to the auditor if the exact amount of each day's receipts is deposited. If deposits are not made daily, the exact amount of the last two or three days should be deposited. If the receipts of a certain day are $210.40, the deposit should be exactly that amount, and not, for example, $200. The duplicating deposit tickets should be used, so that a record is kept of every deposit.

Cashbook.

The Cashbook is divided into two parts—the record of cash receipts and of cash payments. Because the entries of cash payments are greatly in excess of the items of receipts, and because the classification titles of payments are much more numerous than those of the receipts, it is recommended that the latter be kept in one book and the payments in another. Or if a loose-leaf book is used, the receipts sheets may be placed in front of the book and the payments in the back part. A convenient number of special columns in each section are recommended. Many arguments may be cited in favor of the special-column cashbook, chief of which are: Ready reference, facility of proving the results, and economy of time in keeping the books. Six, 12, 18, and 24 column books are on the market at very low cost.

Explanation of the column captions.

The numbers in parentheses correspond to the numbers of the general accounts, pages 36 to 39. It will be noted that this form of cashbook contains the special balancing features; columns 1, 2, and 3 being the debit columns, and 4 to 18 the credit columns. All entries in the Cash Receipts Book (Form 14) are made from the Daily Summary of Receipts (Form 13); hence, no details are entered in this book.

1. *Total.*—This column contains the net cash received, including the balance at the beginning of the period. (1) and (2)

2. *Returns and allowances.*—This column is used only when a credit business is done. It contains discounts and deductions on accounts and bills receivable. (25)

3. *Coupons redeemed.*—This column is used only in case the coupon system is used, in which case the coupons received during the day are entered in this column through the Daily Summary. (16)

4. *Coupons issued.*—In this column are entered amounts received for coupons sold, cash being debited and coupons credited. Until they are paid they stand as a liability. (16)

5. *Cash sales.*—Receipts for sale of merchandise and produce are entered in this column. (24)

6. *Accounts receivable.*—Used only in a credit business. In it are entered only amounts to be credited to the customers' accounts. It is the controlling account of the credit side of the Customers' Ledger or Account File. (3)

7. *Bills receivable.*—Used only in a credit business. In it are entered only receipts from signed obligations due the business. Great care should be taken not to confuse columns 6 and 7. (5)

8. *Bills payable.*—In this column are entered all amounts borrowed from the bank or other parties. The difference between this column and column 16 in the Cash Payments must at all times represent the amount of bills outstanding against the business. (14)

9. *Interest received.*—In this column are entered amounts of interest received on stock notes and bills receivable. This column is used only where a credit business is done, or where the stock is not fully paid up. (39)

10. *Capital stock.*—Receipts for capital stock which have not been entered previously as Stock Notes Receivable. In the latter case, the entry is made in number 11. (17)

11. *Stock notes receivable.*—In this column are entered amounts received on stock notes as explained under (6).

12. *Unclassified.*—Amounts which can not be classified properly under any of the other headings. The title of the accounts should be written clearly in the space provided, and each entry must be posted to the proper account in the General Ledger when the summary is made at the end of the year. These are the only items which are so posted, since the totals of the other columns are carried forward to the Summary, and from there posted once a year to the General Ledger.

CASH PAYMENTS.

All payments, except petty items, are made by check on properly approved vouchers. A part of the change fund referred to on page 27 should be handed to the cashier or bookkeeper for petty expenses, freight, and the like, and at stated intervals the items should be billed, properly classified, approved, and a check drawn for the bill in favor of the bookkeeper or cashier. This obviates the necessity of entering a large number of petty items in the general cashbook,

and it gives to the manager an opportunity to approve the petty expense bills before they are entered.[1]

ORDERS AND REMITTANCES.

Since no ledger accounts are kept with the creditors, it is important to adopt a system of orders and remittances which insures a complete record and enables the creditor to balance his account readily. Every order for merchandise should be reduced to writing. Aside from its value to the office it is practically impossible for the auditor to verify the amount due creditors without this record. Salesmen should be required to use the regular form, and if orders are placed orally or by wire in every case they should be confirmed in writing. Form 25 will be found convenient. *When the invoice is checked it should be entered in the Invoice Register (Form 26).* The most satisfactory voucher is a check with the remittance form attached (Form 15). These checks should be made in duplicate, the carbon copy being retained as the original entry of the payment. Both the original and the duplicate should be numbered consecutively, and the latter should be filed with the invoice or voucher. Then the vouchers should be placed in consecutive order on an arch file until audited. Should it be desired to use the nonduplicating checks, usually furnished by the bank, the remittance notice may be used separately, but the duplicate should be handled in the same manner as above indicated.

So far as practicable, part payment of bills should be avoided. Checking accounts and filing will be facilitated if the exact amount of bills and any reduction or adjustment is noted on the Remittance Blank (Form 16).

CASH PAYMENT BOOK.

Like the Cash Receipts Book, the Payments Book is only a tabulation of the vouchers, since no payment is made without a proper voucher. The date, payee, number, total, and distribution are entered, each payment requiring but one line. The form is shown on pages 22–23.

EXPLANATION OF COLUMN CAPTIONS.

1. *Total.*—Contains all the net cash amounts paid. Corresponds to the face of the checks issued. (11 and 12)

2. *Merchandise discount.*—In this column are entered all amounts deducted from the face of the bills in consideration of payments before the bills are due. (38)

3. *Coupons issued.*—In this column is entered the amount of coupons issued for produce. The total is posted at the end of the

[1] For a further explanation of petty cash see Bulletin 178, U. S. Dept. of Agr., Cooperative Organization Business Methods.

year to the credit of coupons and remains a liability until redeemed. (16)

4. *Merchandise purchases.*—The total amount of the invoices of payments for merchandise. (28)

5. *Produce purchased.*—The total value of the produce paid for in coupons or cash. It is important that all the produce purchased for coupons or cash be entered in this column, so that reliable statistics may be had on this branch of the business. In a credit business it is sometimes found convenient to credit the customer's account with the produce bought. In that case a special produce register is kept, upon which are recorded all items of produce for merchandise without the use of coupons. However, all such exchanges should be properly recorded on the produce register, so that a complete account is kept of all produce purchased. (29)

6. *Returns and allowances.*—In this are entered cash refunds for goods returned by customers. (25)

7. *Freight, express, and cartage.*—In this are entered all payments for transportation on inward goods. (31)

8. *Salaries and labor.*—All salaries and wages are entered in this column. Later they are subdivided under accounts. (41) and (45)

9. *Advertising and delivery.* (42) and (43)

10. *Miscellaneous buying and selling expense.* (44)

11. *Office expense.* (46)

12. *Rent, insurance, and taxes.* (48)

13. *Light, heat, water, power.* (49)

14. *Interest.* (53)

15. *Telephone and telegraph.* (52)

16. *Bills payable.* (14)

17. *Furniture and fixtures.*—In this column are entered all payments for additions to furniture and fixtures, but must not contain anything for merchandise or renewals and repairs. (10)

18. *Unclassified.*—In this column are entered all items which can not properly be included under any of the preceding headings. The account titles are indicated in the space provided, and each item is posted to the proper account in the General Ledger as explained on page 36.

BALANCING THE CASHBOOK.

As already stated, the sum of columns 1, 2, and 3 equals the sum of the totals in the distribution columns. This must be proved before any totals are forwarded from page to page. The cash balance should be noted in the Receipts Book "items" column from time to time. (See Form 14.) But this is only a memorandum. The totals should be carried forward until the end of each month, when the totals are entered in the Summary (Form 18).

RECONCILING THE BANK ACCOUNT.

Usually the bank returns the canceled checks at the end of each month with a statement of the balance. It should be the first duty of the bookkeeper to arrange the checks numerically and reconcile the bank balance with that shown by the cashbook. This is done by the following formula:

Store balance	$742.37
Add outstanding checks	65.40
Bank balance	807.77

CASH SUMMARY.

The cash summary is merely a recapitulation of the totals of the receipts and payments. The same form is used and no change whatever is made in the classification. The cash statement (Form 7) is the total of this summary (Form 18).

COUPON AND SCRIP SYSTEM.

One of the most serious objections to strictly cash business is the inconvenience to the customer in handling change. The percentage of customers who carry a bank account and prefer to pay monthly by check is growing year by year. The convenience of ordering by telephone and having goods delivered in the absence of the housekeeper is recognized by all. To overcome these objections coupons are often sold in convenient books of $5, $10, or $25. Many stores find this system so valuable that they offer a small discount for such advances. So long as the store has no surplus capital, such discount should be more than offset by the trade discount obtained from dealers for prompt payment. As the coupons are sold for cash only, the sale is entered from the Daily Summary into the Receipts Book. The total coupons sold, less the coupons returned, represents a liability, and must be so entered in the Balance Sheet (16). It is not necessary to provide the cash register with a separate key for the coupons, because they should be counted in as cash in the daily balance. Every coupon book should be numbered and a proper receipt should be taken for every book issued. The books should be issued in numerical sequence, and the auditor should require a strict accounting of the books on hand at each audit. A typical book has the following instructions on the cover:

1. Under no circumstances will these coupons be received in payment for goods purchased prior to the sale of this book.

2. The unused portion of this book may be redeemed at the face value of the returned coupons, less 3 per cent, provided the book is presented within one year from date of sale indicated by punch mark in margin of cover.

3. Detached coupons will not be redeemed nor accepted in payment for merchandise. When the coupons have been exhausted, PRESERVE THIS COVER as a receipt for

money paid by you to the store, and when a dividend is announced YOU WILL RECEIVE REBATE based upon the amount paid for this book.

4. If this book is lost or stolen, report the fact at once, giving the number of the book. It is not transferable and will not be honored if presented by another than yourself or one authorized by you. These conditions are necessary in order to protect the purchaser.

I agree to the above conditions:

....., Purchaser.

Date of sale, ... 19..

Many of the most successful stores use scrip or metallic tickets, preferably aluminum, for the payment of produce. The tickets are made in the same denominations as coins, except that the penny is seldom used. This seems to be a good practice for stores which do only a limited buying of produce and where there is no good reason for paying cash. Where large purchases are made of eggs, butter, wool, and the like, and it becomes necessary to pay cash, a check should be drawn in the usual manner. Coupons paid for produce must be counted as a liability until redeemed. It is entered on the Daily Summary and in the Cash Payments as shown in Forms 17 and 18.

Form 19.—JOURNAL.

SAMPLE ENTRIES.

June 15, 1915.

L. F.		Dr.	Cr.
	Pursuant to Articles of Association and Minutes of June 1st, and 8th, the Farmers' Cooperative Association began business with the following resources and liabilities:		
C. B.	Cash	2,500 00	
7	Stock Notes	3,500 00	
1	Capital Stock		6,000 00
	Being 60% of the authorized capital stock, as per stock subscription agreements 1-145		
	January 31, 1915.		*Page 26*
4	Accounts Receivable	2,600 00	
3	Merchandise Sales		2,600 00
	Credit sales for January. For details see J. 30.		
	January 31, 1915.		
3	Merchandise Sales	6 00	
4	Accounts Receivable		6 00
	Returns and Allowances for January. For details, see J. 40.		
	December 31, 1915.		
2	Cash	86,628 00	
3	Merchandise Sales	30 00	
6	Coupons (Redeemed)	19,600 00	
6	Coupons (Issued)		12,390 00
3	Merchandise Sales		34,900 00
4	Accounts Receivable		35,475 00
5	Bills Receivable		4,560 00
8	Bills Payable		13,000 00
9	Interest		180 00
1	Capital Stock		2,050 00
7	Stock Notes		3,400 00
10	Furniture & Fixtures		125 00
11	Commission		178 00
	Cash Receipts for the year, as per Summary C. B. 16.		
	Posting authorized, J. B. Doe, Manager.		

JOURNAL.

The use of the Journal is very restricted in modern bookkeeping. It is confined practically to four classes of entries—opening entries, correction or adjusting entries, periodical summary entries, and closing entries. These several entries are made in the Journal, with suitable explanations, with a view to finally posting them into the General Ledger. An illustration of opening entries is the first above.

The advantages of first journalizing the items to be posted are (1) that the entries may be checked and approved by the proper authority before posting; (2) it facilitates the preparation of the trial balance and statement, and (3) it is a very great assistance to the auditor. The trial balances and statements should also be copied in the Journal. Form 19 illustrates the use of the Journal.

During the progress of the business, certain adjustments and corrections must be made which can not properly be made through the Cashbook. Such entries are made in the Journal. For example, if it is found advisable to exchange a surplus of coal which previously was charged to expense, an entry is made in the Journal with suitable explanations and detail. A temporary settlement for a bill of merchandise by a customer may be made by a note. At the end of the year the totals for the different columns in the Cash Receipts Summary are journalized, the items in the "unclassified" column being segregated and posted to the proper accounts. A similar entry is made for the cash payments.

At the end of the year, in order to find the progress of the business, the books are closed. According to the Manager's Report (Form 7), the inventory of merchandise is $14,900; accrued interest on bills receivable, $31; office supplies, $20; and two liability inventories—accounts payable, $1,600, and accrued interest on bills payable, $21. The proper entries are made in the Journal and posted as follows:

Inventory	$14,951.00	
Merchandise		$14,900.00
Interest		31.00
Expense		20.00
Merchandise	1,600.00	
Interest	21.00	
Inventory		1,621.00

In order to find the profit on Trading, this account is opened and charged with the different items of cost and credited with the sales. The charges and credits are identical with the items in Form 7, II A. In fact, the Trading Account contains the same facts as the statement, but in ledger form.

Journal entries are then made to transfer the Net Profit from the Trading Account and the different profit and loss accounts to the Profit and Loss account. This is identical in content with Form 7, II B.

A Balance Sheet is now taken from the ledger, which is practically identical with Part I of the Manager's Report.

In order to open the books for the next year's business, the net profit is transferred to the Surplus account by means of a journal entry. The Inventory account is closed by a journal entry, which is the reverse of the closing inventory entry above.

Form 20.—GENERAL LEDGER.

CAPITAL STOCK. (1)

1915						1915					
Dec.	31	Balance		15,350	00	Jan.	1	Balance		9,950	00
						Dec.	31	Cash	26	2,050	00
							31	Stock Notes	27	3,350	00
						1916					
						Jan.	1	Balance		15,350	00

CASH. (2)

1915						1915					
Jan.	1	Balance		2,580	00	Dec.	31	Payments	27	85,818	00
Dec.	31	Receipts	26	86,628	00		31	Balance		3,390	00
1916											
Jan.	1	Balance		3,390	00						

MERCHANDISE SALES. (3)

1915						1915					
Jan.	31	Ret. & Allow.	26	6	00	Jan.	31	Sold on acc.	26	2,600	00
Dec.	31	" "	26	30	00	Dec.	31	Cash Sales	26	34,900	00
	31	" "	27	90	00	Feb.	to	Dec. Sold on acc.	27	38,630	00
Feb.	to	Dec. Ret. & Allow.	27	74	00						
Dec.	31	To Trading Acc.	27	75,930	00						

ACCOUNTS RECEIVABLE. (4)

1915						1915					
Jan.	1	Balance		6,885	00	Jan.	31	Ret. & Allow.	26	6	00
	31	Sold on acc.	26	2,600	00	Dec.	31	Cash	26	35,475	00
Feb.	to	Dec. Sold on acc.	27	38,630	00	Feb.	to	Dec. Ret. & Allow.	27	74	00
						Jan.	to	Dec. Bills Rec.	27	5,060	00
						Dec.	31	Balance		7,500	00
1916											
Jan.	1	Balance		7,500	00						

BILLS RECEIVABLE. (5)

1915						1915					
Jan.	1	Balance		1,800	00	Dec.	31	Cash	26	4,560	00
Jan.	to	Dec. on acc.	27	5,060	00		31	Balance		2,300	00
1916											
Jan.	1	Balance		2,300	00						

Form 20.—**GENERAL LEDGER**—Continued.

COUPONS. (6)

1915					1915						
Dec.	31	Redeemed	26	19,600 00	Jan.	1	Balance			160 00
	31	Balance		150 00	Dec.	31	Issued	26	12,390 00
						31	"	27	7,200 00
					1916				
					Jan.	1	Balance		150 00

General Ledger.

The General Ledger contains the accounts of the business as a whole. It contains in summarized form the accounts showing the resources, liabilities, losses and gains, and the administrative accounts. In a corporation all the general ledger accounts are impersonal, even when a credit business is done either with creditors or customers, or both. A convenient type of ledger is shown in Form 20.

It is very desirable from every standpoint that the accounts of similar businesses be standardized so that one business may profit by the experience of the rest. The Harvard Classification [1] of retail accounts has therefore been adopted to a considerable extent as the ledger accounts. They are equally adapted to large or small businesses. The titles and their explanation are as follows:

EXPLANATION OF THE GENERAL ACCOUNTS.

There are only two classes of accounts in the General Ledger, namely, accounts with property and nominal accounts. The accounts with property represent, not only accounts with physical property, but also property belonging to the business in other people's possession, such as accounts receivable, commission due, interest, and so on. The nominal accounts are those showing losses or gains, or the results of the business, such as interest, taxes, insurance, salaries, general expenses, etc. In so far as property accounts show appreciation or depreciation, and also if the property has been sold for more than its cost, such accounts represent also losses or gains. This is true of merchandise accounts, real estate, and furniture and fixtures.

The titles of the accounts and their contents are as follows:

1 and 2.[2] *Cash.*—This balance includes (1) the amount set aside for a revolving fund and for petty expenses, as explained on page 29, and (2) the balance due from the bank or banks. This part of the cash account should agree exactly with the bank statement, due regard being taken for the outstanding checks.

[1] Harvard University—Bureau of Business Research. Bulletin No. 3. Harvard System of Accounts for Retail Grocers. 1914.

[2] The numbers correspond to the items in the Manager's Report, Form 7.

3. *Accounts receivable.*—This account is used as a controlling account if a credit business is done. It shows a debit balance, if any, which equals the amounts due from customers as shown under the several accounts in the customers' ledger, or in the account file. It should be watched very closely, and under no circumstances should the manager allow any deviation from an exact balance between that account and the special accounts in the file.

4. *Reserve for bad debts.*—A close check should be had upon the losses due to credit, and a definite rate established. When this is found, the amount should be deducted from the net profit, and credited to this account. Should this rate be found to be too large, the rate should be decreased; if too small, the rate should be increased from time to time. Credits to this account are offset by corresponding debits to the Loss and Gain account. Sometimes it is well to charge the entire balance of any account to Loss and Gain, and then if an amount is collected enter it as a gain.

5. *Bills receivable.*—This account shows a debit balance, if any, and represents signed obligations due the business, including notes, mortgages, drafts, and other negotiable papers. This account is used only where a credit business is done.

6. *Stock notes receivable.*—This account shows a debit balance, if any, and represents the amount of stock notes due the business. The balance should be kept as low as possible, and care be taken to collect interest on every note.

10. *Furniture and fixtures.*—This account represents the inventory value of the furniture and fixtures at the beginning of the period, together with all additions, but not renewals and repairs. Nothing intended for sale should be included in this account.

14. *Bills payable.*—This account shows a credit balance, representing the amount of signed obligations due others at the end of the period.

16. *Coupons outstanding.*—This account shows a credit balance and represents the amount of coupons outstanding, or the difference between the amount sold and redeemed. Only one entry a year need be made in this account, at the end of the period.

17. *Capital stock.*—This account shows a credit balance, and represents the amount of stock outstanding. It is the controlling account of the Membership Ledger, and the balance must equal the amount of cash received for stock and stock notes, together with the stock notes on hand.

18. *Surplus.*—This account shows a credit balance and represents the undivided profits of a concern. The net gain at the end of the year is entered in this account.

21. *Dividends paid.*—When trade dividends are declared by the directors a journal entry is made, debiting Surplus, and crediting

Dividends Declared. When the latter are paid, Dividends Declared are debited, and Cash credited, through the Cash Payment Book (18). This account should balance at the end of the year, since no unpaid dividends should be reported.

24. *Gross sales.*—This account represents the gross sales of merchandise, and contains only credit items. At the end of the period this amount is credited to the trading account, which contains exactly the same items, in account form, as the Trading Statement.

25. *Returns and allowances on sales.*—This account represents the returned goods and allowances on merchandise sold. It may be kept also on the debit side of the Sales account. If a separate account is kept, it will contain only debit entries until the end of the year.

28. *Merchandise purchases.*—This account is charged with all cash purchases of both merchandise and produce, as shown in columns 4 and 5 of the Cash Payments, which should be entered only once a year. At the end of the year the unpaid bills are also charged to this account. Merchandise returned may be entered either under a separate heading, or it may be entered on the credit side of Merchandise Purchases Account.

30. *Accounts payable.*—This account is not used at all unless regular creditors' accounts are kept as stated on page 48. In that case, only one entry need be made at the end of the year, showing the unpaid bills. This balance should be checked with the creditors' statements. (See Auditing, p. 50.)

31. *Freight, express, and cartage.*—All charges for freight, express, and cartage on incoming goods intended for sale are entered in this account. At the end of the period they are charged to the Trading Account.

35. *Turnover, or net cost of merchandise sold.*—This is defined as the prime cost of sales. It may be estimated at any time by subtracting the given percentage of gross profit from the gross sales. Thus, if the sales are $12,000 and the average rate of gross profits is 20 per cent, the turnover is $12,000 less $2,400, or $9,600.

38. *Merchandise discount.*—The discounts taken on merchandise are accumulated in column 2 in the Cash Payments, and are entered in this account only once a year. It represents a credit balance.

39. *Interest.*—This account shows a debit or credit balance, according as more interest has been received or paid, and it shows the amount of interest received on notes due the business and interest paid on notes due others. Only one entry for the period is made for the year on each side of this account, being the totals of column 9 in the Cash Receipts and column 14 in the Cash Payments.

41. *Salaries and labor.*—The salaries and wages are entered in column 8 in the Cash Payments Book as payments are made, and the

total is entered on the debit side, at the end of the year, as explained on page 30.

42. *Advertising.*—This is treated the same as 41.

43. *Delivery.*—Same as 41.

44. *Miscellaneous buying and selling expense.*—This account contains such items as order and requisition blanks, sales books, twine, wrapping paper, containers, and the like.

45. *Management and office salaries.*—These salaries are a part of the total of column 8 in the Cash Payments. The manager's salary in proportion to the time spent in management; the salaries of the bookkeeper, auditors and secretary, and directors' fees are included.

46. *Office expense.*—This item includes office books and stationery, stamps, ink, pencils, and other office supplies, but not permanent fixtures, such as office desks, typewriters, and adding machines; in short, anything which is consumable and which is used in the office. Sales books, however, should be charged to the selling expense, order and requisition blanks to purchasing expense, etc.

48. *Rent, insurance, and taxes.*—The contents of this account are self-explanatory. In the statement it should be subdivided under the three headings.

49. *Light, heat, water, and power.*—These titles are all self-explanatory. The charges are collected in one column in the Cash-book and later subdivided.

50. *Depreciation on furniture and fixtures.*—Rates of depreciation should be established, and a Reserve for Depreciation of Furniture and Fixtures set up and accumulated every year, to make up for the loss to this property in the same manner as No. (4).

51. *Repairs.*—This account contains charges for expenditures for the general upkeep of the property, such as painting, repairs to fixtures, and glazing. It is accumulated in column 18 of Cash Payments during the year, and from there entered in the General Ledger at the end of the year.

52. *Telephone and telegraph.*—The contents of this account are self-explanatory.

The trading account.—This is a summary of accounts and items 24 to 36, inserted in the Ledger as a permanent record of the Trading Statement. It corresponds exactly to the statement, except that it is in the form of a ledger account.

Stock turns.—This is the approximate number of times the stock is sold, and is found by dividing the turnover (35) by the average inventory (27 and 33). Thus, if the turnover is $30,000 and the inventories are $8,000 and $4,000 at the beginning and end of the year, respectively, the number of stock turns is 5.

Form 21.—CONTINUOUS TRIAL BALANCE, 1915.

Account.	Acc. No.	October.		November.		December.	
		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Capital Stock	1	.....	15,010	.....	15,225	.....	15,350
Cash	2	70,360 80	69,260 40	80,369 25	72,394 20	89,208	85,818
Totals	.....	120,623 15	120,623 15	131,240 60	131,240 60	142,180 20	142,180 20

Trial Balance.

As is evident from an examination of Form 19, debits are equal to the credits, hence a balance should exist between the two sides of the Ledger when the posting is completed. (See Form 21.) This may be taken monthly, or as often as desired. Since there are only a few fixed accounts, this should be a very easy matter if the work is done correctly. It is suggested that the totals of each side of the account be used rather than the balances, since experience has proved that this method obviates many chances for mistakes. The Trial Balance of the totals is also a convenient summary of the business for the year.

Closing the Ledger.

The expression "closing the ledger" is used because of time-honored custom, though it is really a misnomer. The process consists merely of transferring the balances of accounts showing losses or gains to a summary Loss and Gain account which will then show either a net gain or loss. The net gain is reported to the board of directors, which orders its distribution into Dividend, Reserves, Surplus, etc. The loss and gain accounts will then balance, and only resources and liabilities will be shown in the ledger, including, of course, the liabilities to the stockholders; that is, Capital Stock, Dividends, Reserves, and Surplus. In other words, each fiscal period will start without any open loss and gain accounts, which have served their purpose at the end of each period in showing the sources of profits or losses. It is assumed that the bookkeeper is familiar with the method of closing the ledger.

Before the ledger can be closed, however, certain adjustments must be made in the loss and gain accounts. Accounts representing property must be credited with the value of the stock in hand, and accounts showing rates and allowances must be adjusted for unsettled claims. All such lists of property or claims are called inventories. The customary loose method of making these adjustments in red ink directly into the ledger is not recommended. *Every change of whatever nature in the general ledger* should first be entered in the

journal *with suitable explanations*, and *should be approved by the manager before they are posted*. (See page 33.) In this way the auditor will know at a glance just what has been entered in the ledger, and the taking of a trial balance will be greatly facilitated.

B.—BOTH CASH AND CREDIT BUSINESS.

A system of accounts which contains a complete analysis of a cash business is given in the preceding pages. But, unfortunately, few stores are able to confine themselves to this simple method of doing business. It is therefore necessary to outline the additional records required where credit is extended to customers, and where it is impracticable to discount all bills. It should be emphasized that all the preceding records are necessary and that the following are merely *additional credit records*. They are (1) accounts with customers, kept either (*a*) in a separate ledger or (*b*) in an account file; and (2) accounts with creditors, kept likewise in a separate ledger or file. Four additional accounts are kept in the general ledger, viz: A controlling, or summary, account of Accounts Receivable; and another with Accounts Payable; sometimes settlements will be made temporarily by notes, and occasionally money will be borrowed. Hence accounts with Bills Receivable and Bills Payable must be kept. The method of keeping these accounts will be discussed in the above order.

Form 22.—SALES SLIP.

Acct. No. 32

FARMERS' COOPERATIVE ASSOCIATION.

[Place] *Jan. 15, 1915.*

E. K. Jones.

Dept. *K.*	Sold by *J. G.*	Checked by *F. W.*	Got by *Jannen.*
	Items.		Totals.
.....	*Amount forward*	.....	[1] 26 40
1	*Sugar*	1	....
2	*1 Box Apples*	1 50	....
3	*Olives*	25	....
4	*Salt*	10	2 35
5	.....	....	[1] 29 25
6	.....	....	....
7	.....	....	....
8	.....	....	....
9	.....	....	....
10	.....	....	....
11	.....	....	....
12	.....	....	....
13	.....	....	....
14	.....	....	....
15	.....	....	....

[1] This amount is not forwarded unless a slip file is used.

Written in in triplicate.

Form 23.—CUSTOMERS' LEDGER.

[Place], *February, 1915.*

M *E. K. Jones* No. *32.*

.....

IN ACCOUNT WITH

FARMERS' COOPERATIVE ASSOCIATION

[etc.]

For items see sales tickets.

Date.			Ticket No.	Debit.		Credit.		Balance.	
Feb.	*1*	*Bal. ford*						*2*	*85*

		Bal. ford							

Written in duplicate, two months on a page.

[Place], *January, 1915.*

M *E. K. Jones* No. *32.*

.....

IN ACCOUNT WITH

FARMERS' COOPERATIVE ASSOCIATION.

[etc.]

For items see sales tickets.

Date.			Ticket No.	Debit.		Credit.		Balance.	
		Bal. ford						*26*	*40*
Jan.	*15*	*B*	*48*	*2*	*85*				
	18	*C*	*14*	*3*	*60*				
	23	*D*	*23*	*5*				*37*	*85*
	31	*Cash*				*35*		*2*	*85*

		Bal. ford						*2*	*85*

Form 24[1]. BILLS RECEIVABLE REGISTER.

No.	Date. 1915	Maker.	F.	Amount.	Time.	Rate.	When due. 1	2	3	4	5	6	7	8	9	10	11	12	When paid.	Remarks.
26	Mar. 1	Harry G. Dement	72	100	60	7					1								5/1	
27	15	W. F. Miller	36	50	30	7				15									4/10	
28	Ap. 1	W. L. Luxton	42	75	60	7						1								Renewal #14.
		Total J	28	500																

[1] Bills Payable Register and Stock Notes Register are of the same form as 24.

Form 25.—ORDER FOR MERCHANDISE.

FARMERS' COOPERATIVE ASSOCIATION.

Order No. *52.* [Place], *January 2*, 1915.

M *Wholesale Grocery Co.*,
Chicago, Illinois.

Please enter our order for the following goods to be shipped via *C. P. R. Q. Ry.*
Terms: *2/10; n/30.*

	Lot.	Quantity.	Description.	Price.
1	*Xj*	*4*	*cases XXX Pork & Beans*	*90*
2	.....	*5*	*cases Sugar Corn*	*92*
20	.....	.....	.....	.....

Note:
Please send invoice and bill of lading promptly.
Use our order number in billing, correspondence, etc.

Please send invoice and bill of lading promptly.
Yours, truly,
FARMERS' COOPERATIVE ASSOCIATION,
By *J. B. Doe*, Mgr.

In duplicate or triplicate.

Form 26.—INVOICE REGISTER,

Date 1916.		Firm.	Address.	Amount.	Merchandise returned.	−Short. +Over.
Jan.	5	Wholesale Grocery Co.	Chicago	72 40		
	10	Field & Co.	Chicago	246 80	8	+50
	15	General Hardware Co.	St. Louis	62 40		

Left side.

FARMERS' COOPERATIVE ASSOCIATION.

Discount.			Freight and drayage.	Net due.	Due date.													Date paid.		Remarks.
Rate.	Days.	Amount.			1	2	3	4	5	6	7	8	9	10	11	12	Yr.			
1	10	72	2 40	71 68	15												15	Jan.	14	
3	10	7 15	7 20	231 15	20														19	See letter Jan. 2.
2	30	1 05	1 75	61 05		14												Feb.	12	

Right side.

Accounts Receivable.

The original entries of all time sales are made by the salesmen on triplicating sales slips (Form 22). One copy is given to the customer, and two are retained by the salesman, and rung up on the cash register under Credit Sales. The time sales are carefully listed and checked by each salesman at the end of the day, each ticket being accounted for. When thus checked and proved, they are handed to the bookkeeper, who arranges the slips in alphabetical order, binds each day's slips together, and lists them, preferably on an adding machine. The daily total is entered on a special page in the journal under the general heading—

CREDIT SALES FOR JUNE, 1915.

June 1	$126.40
2	92.80
* * * * * *	*
Total	2,600.00

At the end of the month a journal entry is made for the total of the month's sales.

The individual charges are posted daily as debits under the individual accounts in the Customers' Ledger (Form 23). The duplicating statement ledger is used, and entries are made with a sharp indelible pencil over a pencil carbon. The original of the ledger account is sent to the customer as a statement at the end of each month, or as often as desired, the duplicate being retained as the permanent record.

Bills Receivable.

Occasionally, in a credit business, accounts are settled temporarily by note, time draft, or other signed obligation. Such papers are listed on Form 24, and at the end of the month a journal entry is made and posted into the General Ledger as follows:

Bills receivable	$500.00	
Accounts receivable		$500.00

The individual notes are credited to the several accounts in the Customers' Ledger.

Goods Returned.

Goods returned are entered on a credit memorandum, which is printed on a slip the same size as the sales ticket, but usually in red. The best practice is to use but one book of credit memoranda, to be kept in the office; but if the memorandum is written by the salesperson the slips must be rung up on the cash register in the same manner as the sales slips, except that instead of being a Credit Sale it would be entered as a Returned Sale. The goods returned memoranda are then listed on a separate page under an appropriate heading the same as the sales, and at the end of the month posted through the Journal.

Produce.

Most cooperative stores buy produce in limited quantities from farmers. It is almost the unanimous opinion of retail stores that produce is unprofitable. For this reason, and for statistical purposes, a separate account should be kept of this branch of the business. The original entry may be made either on the regular credit memorandum, or, preferably, on a special slip for this purpose. These slips may be totaled at any time to ascertain the volume of produce bought. If the produce is left by the customer for credit, all the credit slips must be posted to the respective accounts, and the total produce entered in the Journal in the same manner as sales.

If the produce business is very large, a special book may be used as a Produce Register, having the same form as the Journal. Coupons may be used to advantage in handling produce, as explained under Cash Payments.

Accounts Payable.

Accounts Payable are amounts due others from the association. If possible such accounts should be avoided entirely and every bill discounted, in which case no creditor's ledger is required, the orders and remittances being handled as illustrated on page 29. Where accounts payable records are kept, the original entry is the creditor's invoice. As the invoices come in they are checked, entered in the Invoice Register (Form 26), and filed in the tickler numbered 1 to 31, corresponding to the days of the month. An account is kept with each creditor in a special ledger, the items being posted to the credit of the respective accounts from the Invoice Register. At the end of the month or as often as desired the register is totaled and the amount entered in the Journal as follows:

Merchandise	$2,000.00	
Accounts Payable		$2,000.00

Purchases as per Invoice Register, Numbers 150 to 195.

When payment is made on account of creditors, the invoices are listed on a voucher check (Form 15) or on a remittance blank (Form 16). A record is made in the cash payments, and the amount is entered in the total and accounts payable column (Form 17). The items appearing in this column are posted to the debit of the various accounts in the Creditors' Ledger, and Accounts Payable is debited from the annual summary entry in the Journal. The total of the balances in the Creditors' Ledger equals the net balance of the controlling account in the General Ledger, if the work is correct. In auditing this account great care must be exercised to check the balances with the creditors' monthly statements.

Account File System.

Because of the extensive introduction of the duplicating and triplicating sales slips into the retail business, various account files have become very popular. They will be found entirely satisfactory only if used as a part of the system of general accounts, just outlined, and not as a substitute for it.

Of course the account file is used for personal accounts only—for customers and, sometimes, creditors. The triplicating sales slip is recommended. One slip is given to the customer and two filed—one in the register, and the third in a special checking file, after having passed through the cash register. The essential difference between this system and the ledger system just described lies in the fact that the balance due is forwarded from slip to slip, the last one being exposed, showing the balance due. Also credits of whatever nature are entered on this same style of slip, deducted from the last balance, and the resulting net balance forwarded as before. (See Form 22.)

In order to prove the accuracy of the register, the total of the last charge is listed from the triplicate (in the cash register) and a journal entry made exactly as before (Form 19). Likewise, the payments are listed and entered in the cash receipts, crediting the customers in the proper column (Form 14). Credits of produce are also listed on a register and journalized. The only difference lies in the fact that no posting to a customer's ledger is necessary, since the account file constitutes the customer's ledger.

When the controlling entries are posted, the total of the balances in the register will equal the net balance of the Accounts Receivable in the General Ledger, if the work is correct. Care must be taken not to allow the daily checking to lapse, because an error dating back several days is extremely difficult to find.

If the system is used also with the creditors' accounts, a special slip is used on which to forward the balances. A controlling account is kept in the General Ledger in the same manner as the customers' controlling account, and a journal entry is made of the total as often as desired. In this case, a special column would be necessary in the Cash Payments book with the heading "Accounts Payable," in which all payments to creditors would be entered. The individual items would be posted to the debit of the creditors' accounts, and the total posted to Accounts Payable at the end of the year in the same manner as the totals of the other columns. When this is done, the total balance in the register should equal the net balance in the controlling account.

Departmental Cost Accounts.

For the purpose of determining the results of the various departments of the business and of setting up a satisfactory trading account, cost records should be kept with the different departments whenever practicable. Usually this record consists of only a few subdivisions of the Merchandise Account, such as Groceries, Dry Goods, Hardware and Implements. Entire bills are charged to the several accounts, so far as practicable, and bills which contain different classes of items must be segregated before they are paid and filed. The total of each division is then charged at convenient intervals to the departmental accounts. In a similar manner the sales are distributed and credited to the accounts. The triplicate copy of the sales slip will be found a convenient basis for the classification of credit sales. Either a cash register in each department or one register containing a departmental totaling device must be used in classifying cash sales.

The result, after taking into account the inventories at the beginning and end of the period, and after charging each department with its proportion of the overhead expenses, usually based on the turnover, shows the gain or loss of each department. A complete analysis of the gross cost, net cost, and general profits and losses of the business as a whole are found in the Manager's Report. The cost accounts are independent of the general accounts, and can be subdivided and modified at pleasure. However, they should check with the general trading account as prepared from the General Ledger (Form 7, II A). The usual stock ledger will be found a convenient form for the cost accounts.

AUDITING.

The object of the audit is threefold: (1) To serve as a check on the bookkeeper, so that a system of accounts, once established, be adhered to without deviation; (2) to serve as a reliable source of information to the stockholders as to the conduct and condition of the business, and accuracy of reports; and (3) the auditor should act as a counselor respecting business methods, especially pertaining to the office practice. The importance of the audit is often overlooked. No single factor will contribute more to the success of any corporate enterprise than a strict audit. It must not be forgotten that the auditor is primarily the servant of the stockholders, and not of the directors.

Many a cooperative enterprise has been wrecked because there has been no unity of policy respecting the methods of accounting and office practice. An unsatisfactory system of accounts is often better in the hands of an accountant who constantly keeps it up to date than the most perfect system in the hands of an inefficient bookkeeper.

A most important rule for the auditor to follow is to *allow no changes in the system of accounts, once established, except upon the written recommendation of the auditor, confirmed by the board of directors.* What appears to the bookkeeper or manager as an insignificant change may be of vital importance to the business.

A very erroneous opinion often exists regarding the duties and responsibility of an auditor. The auditor's principal duties are: (1) To check and verify the manager's and other officers' reports; to ascertain whether or not the reports are based on and agree with the permanent records of the business; (2) to verify assets and liabilities—first as to their existence, and, second, as to their value; and (3) to report on the system of accounts and the manner in which they are kept up.

It is not his duty to balance the books, nor to assist in preparing reports, nor is he responsible for bad accounting unless in his report to the membership he fails to call attention to the defects. Another important rule for the auditor to observe is to *require the complete balance sheet from the bookkeeper before he begins the audit.*

The best result will be obtained if the audits are neither too numerous nor too few. Perhaps a partial audit by a committee every three months will be sufficient, while a complete audit should be made once a year by an expert accountant or auditor.

It is very important that the auditor follow a definite routine in his work. Generally this should be as follows: (1) See that the reports are complete, in proper form, and in balance; (2) investigate any unusual item which may appear in the report; (3) check the report with the general ledger, and ascertain that the latter is in balance; (4) check the inventories and other schedules of accounts with the reports; (5) see that the valuation of both assets and liabilities is correct; (6) check the cash receipts (*a*) with the cash register, (*b*) with the original daily summary, (*c*) with the bank deposits (the total receipts must equal the deposits plus the change fund; the auditor should adopt a private mark, and check every item); (7) check the cash payments (*a*) with the original vouchers, (*b*) with the canceled checks, (*c*) as to distribution, (*d*) as to totals and balance; (8) check the journalizing and posting; (9) check the time sales and customers' ledger, if any, (*a*) with the original sales slips, (*b*) with the controlling account in the general ledger; (10) check the creditors' accounts in the same manner; (11) check the secretary's stock records; and (12) check the minutes, and see to it that nothing has been entered which is in conflict with them.

A complete audit consists of three parts: (1) Audit of the resources and liabilities; (2) the cash audit, and (3) audit of revenue. Whether or not it is possible for the auditor to complete such an audit satisfactorily depends on the condition of the books and reports when he takes them, and the time given to the work.

AUDIT OF RESOURCES AND LIABILITIES.

Because the solvency or insolvency of any business depends on the relation between the resources and liabilities, it is of the utmost importance that the truth of the Balance Sheet be shown. The method of determining this can be stated best by an example. Suppose the balance sheet of a cooperative store is as follows:

RESOURCES.		LIABILITIES.	
Cash	$100.00	Capital Stock	$10,000.00
Merchandise	8,000.00	Bills Payable	1,000.00
Accounts Receivable	3,000.00	Accounts Payable	2,000.00
Bills Receivable	1,500.00	Surplus	2,000.00
Real Estate	1,400.00		
Subscribed Stock	1,000.00		
	15,000.00		15,000.00

It is evident that if the resources are understated or the liabilities overstated, or both, the surplus is larger than $2,000; and the reverse is true if there are more liabilities and less resources than appear on the statement.

The auditor must constantly take into account the weakness of human nature in the manager's disposition to show the business in the brightest light, and he must use every means at his disposal to verify the Balance Sheet. If satisfactory evidence of the statement does not exist, he should say so frankly in his report. The following are the several items of the Balance Sheet in their order:

Cash.—The method of verifying the cash has been given (page 51).

Merchandise.—It is usually impracticable for the auditor to examine every entry and every total of the inventory, but he should require that a proper classification be made under the various accounts found in the ledger, and he should appoint a responsible stockholder or assistant to be present at stocktaking who should also review prices, extensions, footings, etc. Every schedule should bear the O. K. of this assistant.

Accounts receivable.—The balance of the Customers' Ledger or Account File with the controlling account in the General Ledger is only partial evidence of the correctness of these accounts. Errors in prices, omissions of charges, and the like are not shown by this balance. The only satisfactory method of checking against such errors is a regular review of the triplicates by the bookkeeper, and also a check by the auditor of several sales slips of each day, week, or month, taken at random. If mistakes are very infrequent, and the total of the Customers' Ledger equals the controlling account, the Balance Sheet may be regarded as reasonably correct.

Bills receivable.—The balance shown in the General Ledger must equal the total of notes on hand. This should also be verified by

checking the notes on hand at the last audit and those received and paid during the period.

Real estate.—The real estate should be valued at the conservative market value, and sometimes it is advisable to examine deeds, mortgages, letters, etc.

Capital stock.—The capital stock must balance with the credit side of the Capital Stock Account in the Membership Ledger.

Bills payable.—A register is kept of Bills Payable if the business is extensive enough to warrant it (Form 24), and no entry is permitted in this book without the approval of the manager. The amounts not marked "Paid" must equal the total shown in the General Ledger.

Accounts payable.—The fact that the total balances in the Creditors' Ledger equals the controlling account balance in the General Ledger is generally taken as evidence of the correctness of the items. That this is not sufficient is evident from the fact that if a deferred item were either intentionally or accidentally omitted from the books or schedules, the amount would be a liability still, but the account would be short by that amount. *The only satisfactory method of proving creditors' balances is by the creditors' own monthly statements.* This is a precaution which is too often overlooked.

Surplus.—The surplus is made up of the several entries from the Journal at the close of each balance period.

There is a difference of opinion as to whether a single auditor or a committee should be employed. In most cases it is found that a single auditor is more satisfactory. In the average community, really competent accountants are scarce, and the greatest care must be exercised to avoid careless and perfunctory audits. It will be impossible to retain competent auditors without fair compensation; and the resources of the average cooperative association are such that the expense of an auditor will not be excessive. If the business warrants it, a certified public accountant should be employed. Generally, it should be a matter of indifference whether or not the auditor is a member of the association. In most cases, however, it is better if he is a nonmember. Perhaps the best results are obtained if the membership elect an auditing committee at the annual meeting, with the understanding that this committee employ a competent auditor.

OFFICE EQUIPMENT.

Too much attention can not be given to proper office equipment. Nothing discredits the store more quickly in the opinion of discriminating trade than slovenly appearance of the premises, and particularly an office littered with all kinds of rubbish, devoid of every convenience and comfort. Too often the opinion exists that a farm-

ers' store, in order to attract country people and make them feel at home, must avoid unnecessary decoration and the up-to-dateness which characterize the successful city retail store. On the contrary, the cooperative store should lead in everything which makes for greater comfort, refinement, and economy in business. Thus it can become a powerful educational influence in the community.

It should be emphasized that no great amount of money is required to keep the litter off the desk and counters and the cobwebs off the shelves. Many valuable conveniences can be improvised by the progressive bookkeeper and manager, and a duster costs practically nothing.

The first step in organizing any office, simple or complex, is to get things off the desks and counters *completely at least once a day.* This means filing; it means keeping things moving—papers, documents, books; it means continually applying the old adage, "A place for everything and *everything in its place.*" Everything considered, the alphabetical vertical file will be found most satisfactory; one section for letters, another for invoices, a third for catalogues, a fourth for storing, etc.

Failure to index papers and material which are frequently referred to causes an enormous waste of time. This is due, generally, not to ignorance of proper method but to a lack of the application of common sense. Anybody can use a dictionary or a telephone index. There are no better models of good indexing. If drawers become numerous, number them and index the contents, thus saving the time and annoyance of frequent hunting for misplaced things.

Space does not permit more than a list of the desirable office conveniences which should be in every store. The cash register is an indispensable aid toward good business methods if used absolutely according to the manufacturer's and auditor's directions. Rather have no cash register at all than not to use properly the checks for accuracy which were the very origin of this valuable device. The register can be dispensed with when the business warrants the installation of an overhead carrier system. This system is often found to be one of the best investments in the store. Not only does it save a large share of the salesmen's time, but it makes for greater accuracy and general improvement in the office methods.

If properly used as an auxiliary to a system of records, the account file, referred to on page 48, is a great convenience. But it must never be forgotten that the account file is not a system of accounts; it must not replace the permanent consecutive records described in the preceding pages. As a file for short-account slips of 30, or at the most 60, days, properly safeguarded, it is a great labor-saving device.

A store can not long afford to do without a suitable adding machine. For listing sales slips, invoices, and countless items of computation

in a busy store it is indispensable. Only the listing machine is really serviceable. The smaller types, however, answer quite as well as the larger ones.

A typewriter is a great convenience. Duplicates of correspondence, orders, invoices, and other papers should be retained for reference, and this can be done best by means of the typewriter.

SUMMARY.

1. An adequate set of records is indispensable to any business.
2. The records must be comprehensive enough to analyze every important phase of the business; must be accurate and capable of proof, and must be kept up at all times.
3. An unsatisfactory system properly kept up is often more satisfactory than a perfect system improperly kept.
4. Records of like businesses should be standardized so that one business may profit by the experience of the others.
5. A system of accounts once adopted should not be changed without authority from the auditor and board of directors.
6. The financial statement is the foundation of any system of accounts.
7. Great care should be taken to decide on a correct classification of accounts before the system is adopted.
8. Sales, expenses, salaries, and other important facts should be reduced to percentages and studied closely by the management.
9. The cash should be checked daily from the cash register by the bookeeper and monthly by the auditors.
10. Credit accounts, both for purchases and sales, should be avoided whenever possible.
11. All bills should be discounted, even if it becomes necessary to borrow money.
12. All cash receipts should be deposited.
13. All except petty payments should be made by check.
14. A good filing system is indispensable.
15. All time sales should be recorded on triplicating sales slips.
16. Dividends should be paid on cash business or accounts settled within 30 days either in cash or produce.
17. The president, manager, and auditor should each be required to submit an annual written report.
18. The audit should be regular, comprehensive, and thorough.
19. The auditor should refuse to enter upon the audit until the balance sheet is submitted by the bookkeeper.
20. Special diligence should be exercised by the auditor to discover resources and liabilities not properly included in the statement.
21. Whenever possible a certified public accountant should be secured to make the annual audit.

BIBLIOGRAPHY.

BENTLEY, HARRY C. The science of accounts. New York. Ronald Press.

BEXELL, J. A.; MACPHERSON, H., and KERR, W. H. A survey of typical cooperative stores. U. S. Dept. of Agr. Bulletin No. 394.

HARVARD UNIVERSITY, BUREAU OF BUSINESS RESEARCH. Bulletin No. 3. Harvard System of accounts for retail grocers.

HUMPHREY, JOHN R., and KERR, W. H. Patronage dividends in cooperative grain companies. U. S. Dept. of Agr. Bulletin 371.

KEISTER, D. A. Corporation accounting and auditing. Cleveland. Burrows Co.

KERR, W. H., and NAHSTOLL, G. A. Cooperative organization business methods. U. S. Dept. of Agr. Bulletin 178.

NEYSTROM, PAUL H. Retail selling and store management. New York. Appleton & Co.

SCHULZE, J. WILLIAM. The American office; its organization, management, and records. New York. Key Publishing Co.

TIFFANY, H. S. Digest of depreciations. Chicago. H. S. Tiffany Co.

TWYFORD, H. B. Purchasing; its economic aspects and proper methods. New York. D. Van Nostrand.

WOOD, ALFRED. The cooperative secretary. Manchester, Eng. The Cooperative Union, Ltd.

WOOD, ALFRED. A manual of audit. Manchester, Eng. The Cooperative Union, Ltd.

INDEX OF RECORDS AND ACCOUNTING FORMS.

Form No.—	Page.	Form No.—	Page.
1. Minutes	3	13. Daily Receipts Summary	18
2. Subscription Agreement	5	14. Cash Receipts Book	19
3. Stock Note	5	15. Voucher Check	20
4. Stock Certificate	6	16. Remittance Blank	21
5. Stock Certificate Register	6	17. Cash Payments Book	22
6. Membership Ledger	8	18. Cash Summary	24
7. Manager's Report	10	19. Journal	33
8. Comparative Statement	14	20. Ledger	35
9. Inventory	14	21. Trial Balance	40
10. Cash Register Ticket	17	22. Sales Slip	42
11. Envelope Showing Monthly Summary of Cash Tickets	17	23. Customers' Ledger	43
		24. Bills Receivable Register	44
12. Trading Summary and Dividend Register	17	25. Order for Merchandise	45
		26. Invoice Register	46

ADDITIONAL COPIES

OF THIS PUBLICATION MAY BE PROCURED FROM
THE SUPERINTENDENT OF DOCUMENTS
GOVERNMENT PRINTING OFFICE
WASHINGTON, D. C.
AT
10 CENTS PER COPY

△